City of Portland Office of Management & Finance

THE FINANCIAL OUTLOOK

Accounting Period 3 (Aug. 28, 2003 to Sept. 24, 2003) General Fund Financial Outlook (Issue Date: Nov. 25, 2003)

Estimated Year-End General Fund Resources At AP-03 are forecast to range from \$369.6 million (LOW) to \$384.7 million (HIGH). Estimated revised budget, period 3, is \$374.7 million. This estimated budget is about \$4.1 million above Council's Adopted Budget. Early on in the new fiscal year revenues appear to be ahead of last year but it is difficult to tell by how much. Year-to-date accounting does not yet reflect the new revenue accounting framework that changes business license revenue recognition to an approach that uses revenues net of refunds and credits. Netting \$1.5 million of refunds out of revenues * Property Taxes Down -46.1% vs. year-ago puts net revenues about 4.5% ahead of year-ago. This is

RESOURCE REC	CAP				
* IBIS Budgeted Resources	\$374,724,653				
* Resource Range(High)	\$384,679,438				
(Low)	\$369,554,718				
* Revenues At AP-3	\$33,439,987				
Versus Year-AgoUP	14.78%				
(*) Net of Short-Term Borrov	ving				
NOTEWORTHY A	Г АР-3				
* Hotel/Motel Up 4.0 % vs. year-ago					
Business License Un 34.8 % vs. vear-ago					

Estimated Year-End Resource Range FY2003-04 **General Fund Financial Model**

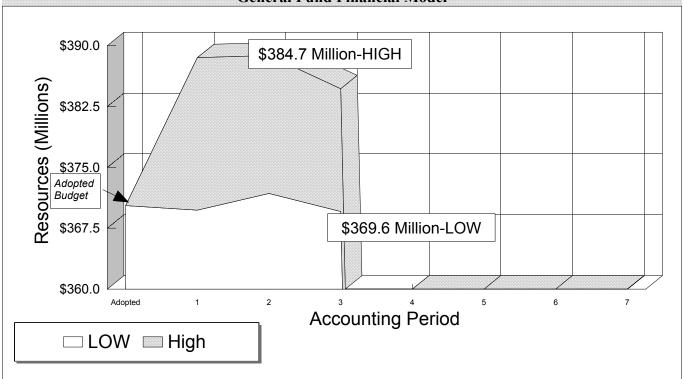


Figure 1-General Fund Resources, Year-End FY2003-04

The Bottom Line: Resources, year-end, are estimated to range from \$369.6 million (Low) to \$384.7 million (High). Budgeted resources are \$374.72 million. Year-end expenditure estimates range from \$356.2 million (Low) to \$363.2 million (High). Forecast year-end balance, beginning FY2004-05 balance, is forecast at somewhere between \$6.3 million (Low) to as much as \$28.5 million (High). A wide range is typical this early in the year.

almost entirely due to strong early grant revenues which are running about \$1 million ahead of last year. This difference alone accounts for about 3 percentage points of year-over-year revenue growth.

Certified assessed value and levy data from Multnomah County has come available since the period 2 OUTLOOK. The news is not good. In addition to weak assessed value growth of 2.5%, levy compression rates increased another notch. Last year the General Fund lost 3.231% of levy authority to compression. This year the levy compression rate increased to 4.135%. This increase in compression

EXPENDITURE RI	ECAP
* IBIS Budgeted Expenses	\$374,724,653
* Expense Range(High)	\$363,234,376
*(Low)	\$356,189,646
* Expenses At AP-3(*)	\$81,060,015
Versus Year-AgoUp	0.3%
(*) Net of Short T	Term Borrowing
NOTEWORTHY AT	Г АР-3
* Personal Services UP 0.7% vs. yea	ır-ago
* All M&S UP 8% vs. year-ago	_
* Capital Outlays DOWN -10.4% v	s. year-ago

in effect wiped out about \$1.448 million of the General Fund fixed tax rate operating levy. This taken together with assessed value growth well below budget (and 3 percent for that matter) means that property tax revenues will be about \$2.7 million (1.8%) below budget. The principal reasons for the increase in levy compression are weak assessed value growth, weak new construction values coming onto tax roles outside of urban renewal districts, and large increases in local government levy authority for both the City's urban renewal collections and public safety retirement system (FPD&R) levies. The City's FPD&R levy increased from \$74 to \$92 million in one year. The last two years now represent a disturbing trend. It is clear that this version of the property tax system is cyclical, recession lowers both assessed value and revenue growth. Against this backdrop, increasing levy authority increases compression.

General Fund expenditures at AP-3 total about \$81.1 million vs. last year's \$80.8 million, up 0.3 percent versus year-ago. Spending comparisons continue to be difficult in the absence of a contract with Portland Police Association (PPA). An "interest arbitration" is now underway. PPA,

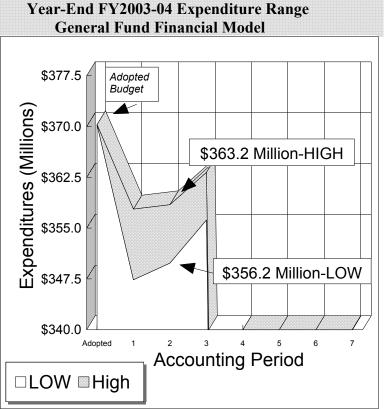


Figure 2-General Fund Expenditures, FY2003-04

by state statute is a "non-strikeable" unit and has the right to an interest arbitration when bargaining is unable to produce a new labor contract amenable to both sides. In this type of proceeding both sides submit a "last best offer" to an arbitrator. Then a quasi-judicial proceeding occurs where both sides make their case to the arbitrator, arguing why their last best offer is in the interest of the public welfare. Both sides write final briefs at the end of the proceedings and then the arbitrator renders a decision in which he or she must pick one of the last best offers. It is thus an all or nothing proposition for both sides. The City's last best offer is for CPI-W cost-of-living increases over the life of the three year contract and CPI-W, medical care, health benefits cap increases. OMF estimates the PPA's last best offer to cost about \$43 to \$44 million more than the City's last best offer over the next five years. The arbitrator is expected to render a decision sometime, first quarter, of calendar 2004.

The Estimated Year-End General Fund Balance at AP-3 ranges from \$6.3 (Low) to \$28.5 The previous OUTLOOK used accounting data through August 23rd in projecting an FY2002-03 ending fund balance of \$11.474 million above the General Fund's FY2003-04 beginning balance of about \$8.4 million. In going to audited numbers a large change occurred in business license revenue recognition and accounting. Prior to FY2002-03 the General Fund booked business license receipts on the revenue side and expended refunds (tax overpayments) out of a special (budget) appropriation. In addition, licenses could elect to take either a refund or a tax credit if they over paid

their tax obligation. The external auditor and central accounting changed this approach at audit to one in which revenues net of refunds are booked into the General Fund. Revenues and last year's beginning fund balance were further adjusted for existing credits. These adjustments taken together reduced the excess beginning Ending Fund Balance Range beginning to \$7.842 million or by \$3.632 million.

Estimated	l Year-End Bala	ince Range
Item	Low	High
Resources	. \$369,554,718	\$384,679,438
Expenses	. \$363,234,376	\$356,189,646
End Balance	\$6,320,341	\$28,489,792

Estimated Year-End General Fund Balance Range FY2003-04 **General Fund Financial Model** \$45.0 \$40.0 Ending Balance (Millions) \$35.0 \$28.5 Million-HIGH \$30.0 \$25.0 \$20.0 \$15.0 \$10.0 \$5.0 \$6.3 Million-LOW \$0.0 Adonted 3 □ LOW □ High Accounting Period

Figure 3-Estimated General Fund Balance, Year-End FY2003-04

The Jobless Recovery

The national economy has shown some evidence of the recovery extending itself to Recently released Bureau of Labor Statistics (BLS) October employlabor markets. ment data showed a slightly lower unemployment rate while nonfarm payroll employment showed a gain of about 126,000 job. Marple's Pacific Northwest Letter (see the October 15, 2003 No. 1397 issue) however, notes that "in the Pacific Northwest, we are still on the outside looking in." A survey of Alaska, Oregon, and Washington shows that unemployment rates remain uncomfortably high. Recent data put all of these states with unemployment rates of between 7.5% and 8% with Oregon at the top of the heap while Portland metro-area continues to see unemployment rates of about 8%. The recession continues to drag on here as evidenced by continued and very slow revenue growth.

Table 1-General Fund Resources, FY2003-04				
		Through	Estimated	Revised
GENERAL FUND RESOURCE CATEGORY		AP-3	Year-End	Budget
INTERNAL REVENUES 4	1000			
Service Reimbursements		\$444,772	\$24,437,719	\$24,936,448
Other Internal & Transfers-IN		\$5,433,107	\$29,261,116	\$31,287,573
PROPERTY & LODGING TAXES 4	2100			
Property Taxes		\$17,990	\$151,657,734	\$151,594,887
Lodging Taxes		\$2,791,865	\$10,973,958	\$10,978,701
	3000			
Business Licenses		\$4,448,169	\$41,857,279	\$40,664,039
Utility License/Franchise		\$12,229,148	\$55,753,867	\$57,235,993
Other Permits		\$498,569	\$2,017,700	\$2,863,825
SERVICE CHARGES & FEES 4	4000	\$3,234,105	\$13,438,486	\$12,797,303
STATE, FEDERAL SOURCES4	16000	\$725,124	\$9,211,097	\$9,520,137
LOCAL SOURCES (Contracts)4	7000	\$2,497,419	\$9,155,084	\$9,218,024
MISC. REVENUES & INTEREST 4	19400	\$1,177,712	\$4,260,461	\$5,772,058
TAX ANTICIPATION NOTES/Note Sales		\$0	\$0	\$0
BEGINNING FUND BALANCE		\$16,960,303	\$16,960,303	\$14,668,162
ENCUMBRANCE & CARRYOVER		\$2,426,973	\$2,426,973	\$3,187,503
GENERAL FUND RESOURCE TOTAL		\$52,885,256	\$371,411,777	\$374,724,653
Estimated Percent Of Budget Resources Rea	lized	14.1%	99.1%	

Table 2-General Fund Expenditures, FY2003-04			
	Through	Estimated	Revised
GENERAL FUND EXPENDITURES	AP-3	Year-End	Budget
Salaries & Wages	\$36,557,704	\$160,139,083	\$166,956,692
Overtime	\$1,835,803	\$7,026,122	\$6,994,069
Benefits	\$9,547,815	\$38,559,307	\$37,613,424
Premium & Part-Time	\$5,675,318	\$16,835,259	\$17,086,565
TOTAL PERSONAL SERVICES	\$53,616,640	\$222,559,771	\$228,650,751
Estimated Percent Of Budget Spent	23.4%	97.3%	
EXTERNAL MATERIALS & SERVICES	\$13,892,632	\$55,632,346	\$59,240,722
Estimated Percent Of Budget Spent	23.5%	93.9%	
INTERNAL MATERIALS & SERVICES	\$8,043,389	\$45,726,503	\$46,682,338
Estimated Percent Of Budget Spent	17.2%	98.0%	
CAPITAL OUTLAY	\$1,106,095	\$1,484,567	\$1,484,567
Estimated Percent Of Budget Spent	74.5%	100.0%	
CONTINGENCY & UNFORESEEN	\$0	\$4,083,024	\$6,690,246
FUND CASH TRANSFERS	\$4,401,259	\$31,941,029	\$31,976,029
INVENTORY	\$0	\$0	\$0
GENERAL FUND EXPENSE TOTAL	\$81,060,015	\$361,427,240	\$374,724,653
Estimated Percent Of Budget Spent	21.6%	96.5%	

Table 3-General Fund Expenditu		y Appropriati	ion Unit, FY2	003-04	
	23.1%				
	76.9%	Through	Estimated	Revised	Percent
AU Description	AU#	AP-3	Year-End	Budget	Spent
Police Bureau	100	\$28,232,556	\$125,914,601	\$130,194,576	21.7%
Fire Bureau	124	\$17,613,054	\$67,021,695	\$69,486,264	25.3%
Bureau Of Parks	130	\$10,717,656	\$44,747,200	\$46,477,567	23.1%
Subtotal-Public Safety and Park	(S	\$56,563,266	\$237,683,497	\$246,158,407	23.0%
Commissioner #2 (Sten)	190	\$144,574	NA	\$634,596	22.8%
Commissioner #4 (Leonard)	191	\$127,766	NA	\$629,451	20.3%
Commissioner #3 (Saltzman)	192	\$179,627	NA	\$774,714	23.2%
Commissioner #1 (Francesconi)	193	\$143,456	NA	\$668,365	21.5%
Office Of The Mayor	195	\$317,072	NA	\$1,413,235	22.4%
Operating Contingency	298	\$6	\$3,083,024	\$4,690,246	NA
Unforeseen Revenues	298	\$0	\$1,000,000	\$2,000,000	NA
Other Cash Transfers	299	\$4,401,259	\$31,941,029	\$31,976,029	13.8%
Office of Cable Com	300	\$362,470	NA	\$1,736,683	20.9%
Emergency Management 1	10	\$126,997	NA	\$970,223	NA
Office-Sus. Develop	302	\$350,178	NA	\$3,137,776	11.2%
Government Relations	303	\$141,573	NA	\$742,056	19.1%
Office Of Man. & Fin	307	\$5,224,615	NA	\$25,687,596	20.3%
Office Of City Attorney	312	\$1,133,348	NA	\$5,279,257	21.5%
Business Licenses	316	\$908,912	NA	\$4,107,585	22.1%
Purchases & Stores	319	\$0	NA	\$0	NA
Stock Account	325	(\$12,840)	NA	\$25,000	NA
City Auditor	336	\$1,478,157	NA	\$6,995,434	21.1%
Unused Line		\$0	NA	\$0	NA
Office Neigh. Involve	342	\$1,800,552	NA	\$7,376,982	24.4%
Bureau General Svces	346	\$0	NA	\$0	NA
Unused Line		\$0	NA	\$0	NA
Special Appropriations	401	\$3,144,111	NA	\$12,067,562	26.1%
Bureau Of Planning	510	\$1,661,149	NA	\$8,240,615	20.2%
Bureau Com. Develop	540	\$2,912,999	NA	\$9,412,841	30.9%
Subtotal-All Other AUs		\$24,545,981	\$124,570,243	\$128,566,246	19.1%
General Fund Total-All AUs	5	\$81,109,247	\$362,253,739	\$374,724,653	21.6%

Table 4-Revenue and Economic Indicators

This table summarizes some basic revenue and economic indicators. The onset of an economic slowdown or financial trouble will be reflected by indicators that climb above the applicable "Concern Level."

	FY2002-03	FY2002-03	
Reserve Fund Usage Condition	4th Quarter	3rd Quarter	Concern Level
Basic Revenue Growth (*)	-0.4%	0.6%	Below 3.0%
Portland Unemployment Rate	8.0%	8.1%	Above 6.5%
Business License Revenue Growth	-3.5%	-7.0%	Below 5.5%
Property Tax Delinquency Rate	5.8%	5.7%	Above 8.0%

^(*) Basic revenues include property taxes, transient lodgings taxes, business licenses, cigarette and liquor tax distributions, utility license/franchise fees, and interest income revenues, last 12 months compared to year-ago.

Financial Outlook, AP-03

FY2003-04, FOFY0403

Page 5